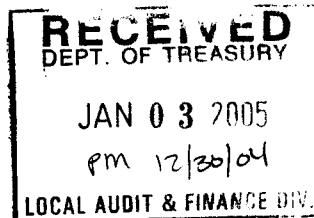


**Portland District Library**

**Financial Statements  
With Supplemental Information**  
June 30, 2004

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.



Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Portland District Library</b>	County <b>Ionia</b>
Audit Date <b>6/30/04</b>	Opinion Date <b>11/22/04</b>	Date Accountant Report Submitted to State: <b>12/30/04</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name)

**Biggs, Hausserman, Thompson, and Dickinson, P.C.**

Street Address

**356 E. Main Street**

City

**Saranac**

State

**MI**

ZIP

**48881**

Accountant Signature

*Shirley R. Thompson* CR

Date

**12/30/04**

# Portland District Library

June 30, 2004

## Contents

	<u>PAGE</u>
<b>Independent Auditor's Report</b>	1-2
<b>Management's Discussion and Analysis</b>	3-9
<b>Basic Financial Statements</b>	
Government - Wide Financial Statements:	
Statement of Net Assets	10
Statement of Activities	11
Fund Financial Statements:	
Balance Sheet – Governmental Funds	12
Reconciliation of Fund Balances of Governmental Funds to Net Assets	13
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Notes to Financial Statements	16-23
<b>Required Supplemental Information</b>	
Budgetary Comparison Schedule – General Fund	24
<b>Other Supplemental Information</b>	
Combining Balance Sheet – Nonmajor Governmental Funds	25
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	26
Schedules of Indebtedness	27

**Independent Auditor's Report**

Independent Auditor's Report

To the Library Board  
Portland District Library  
Portland, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Portland District Library as of and for the year ended June 30, 2004, which collectively comprise the basic financial statements as listed in the table of contents. These financial statements are the responsibility of Portland District Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Portland District Library as of June 30, 2004 and respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Library has implemented a new financial reporting model, as required by the provisions of the GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of July 1, 2003.

The management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 24 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Portland District Library's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Biggs, Hausserman, Thompson & Dickinson*

BIGGS, HAUSSERMAN, THOMPSON & DICKINSON, P.C.  
Certified Public Accountants

November 22, 2004

## Management's Discussion and Analysis

**Portland District Library**  
Management's Discussion and Analysis  
June 30, 2004

This section of the Portland District Library's annual financial report represents our discussion and analysis of the Library financial performance and is intended to assist the reader in focusing on significant financial issues, provide an overview of the Library's financial activity, identify changes in the Library's financial position and its ability to address the next and subsequent year challenges. This is a requirement of the Governmental Accounting Standards Board Statement No. 34 (GASB 34) "Basic Financial Statements – and Managements Discussion and Analysis – for State and Local Governments" and is intended to provide the financial results for the fiscal year ending June 30, 2004. This is the first year of GASB 34 implementation.

**Using this Annual Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Portland District Library financially as a whole. The *Government-wide Financial Statements* provide information about the activities of the whole Library, presenting both an aggregate view of the Library finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the Library's operations in more detail than the government-wide financial statements by providing information about the Library's most significant funds, the General Fund and the Capital Projects Fund- with all other funds presented in one column as nonmajor funds. The annual report is organized as follows:

*Management's Discussion & Analysis (MD&A)*  
*(Required Supplemental Information)*

Basic Financial Statements

*Government-wide Financial Statements*

*Fund Financial Statements*

*Notes to the Basic Financial Statements*

*(Required Supplemental Information)*  
*Budgetary Information for Major Funds*

***Reporting the Library as a Whole - Government-wide Financial Statements***

One of the most important questions asked about the Library is, "Is the Library as a whole better off or worse off financially as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities, which appear first in the Library's financial statements, report information on the Library as a whole and its activities in a way that helps you answer this question. We prepare these statements to include *all* assets and liabilities, using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies.



**Portland District Library**  
Management's Discussion and Analysis  
June 30, 2004

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Library's net assets- the difference between assets and liabilities, as reported in the Statement of Net Assets - as one way to measure the Library's financial health, or financial position. Over time, increases or decreases in the Library's net assets - as reported in the Statement of Activities - are one indicator of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Library's operating results. However, the Library's goal is to provide services to our residents, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the information provided.

The Statement of Net Assets and Statement of Activities report the governmental activities for the Library, which encompass all of the Library's services. Property taxes and State penal fines finance most of these activities.

***Reporting the Library Most Significant Funds – Fund Financial Statements***

The Library's fund financial statements provide detailed information about the most *significant funds* - not the Library as a whole. Some funds are required to be established by State law and by bond covenants. However, the Library establishes many other funds to help it control and manage money for particular purposes (like the Capital Projects Fund) or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money. The governmental funds of the Library use the following accounting approach:

Governmental funds - All of the Library's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year-end that are available for spending. They are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the operations of the Library and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Library's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds in a* reconciliation.

**Portland District Library**  
Management's Discussion and Analysis  
June 30, 2004

**The Library As A Whole**

The Statement of Net Assets provides the perspective of the Library as a whole. Table 1 provides a summary of the Library net assets as of June 30, 2004:

Table 1:

<b>Net Assets</b> <b>June 30, 2004</b>	
	<u>Governmental Activities</u>
Current and other assets	\$ 3,515,795
Capital assets	825,566
Total assets	<u>\$ 4,341,361</u>
Current and other liabilities	\$ 220,265
Long-term liabilities	2,845,000
Total liabilities	<u>3,065,265</u>
Net assets	
Invested in capital assets, net of related debt	(2,089,434)
Restricted debt service	92,902
Restricted - capital projects	2,649,197
Unrestricted	623,431
Total net assets	<u>\$ 1,276,096</u>

The above analysis focuses on the net assets (see Table 1). The change in net assets (see Table 2) of the Library governmental activities is discussed below. The Library's net assets were \$1,276,096 at June 30, 2004. Invested in capital assets, net of related debt totaling \$(2,089,434) compares the original cost, less depreciation of the Library capital assets to long-term debt, used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approval property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the Library's ability to use those net assets for day-to-day operations. The remaining amount of net assets \$623,431 was unrestricted.

**Portland District Library**  
Management's Discussion and Analysis  
June 30, 2004

The \$623,431 in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the Library as a whole are reported in the Statement of Activities (Table 2), which shows the changes in net assets for fiscal year 2004. Since this is the first year the Library has prepared financial statements following GASB Statement 34, revenue and expense comparison to fiscal year 2003 is not available.

**TABLE 2**

	<u>Governmental Activities</u>
<b>Revenues</b>	
Program revenues	
Charges for services	\$ 11,849
Grants and Catagoricals	13,438
General Revenues	
Property taxes	400,279
Penal fines	92,829
Other general revenues	57,412
Total revenues	<u>575,807</u>
<b>Functions/Program Expenses</b>	
Culture and recreation	208,447
Interest on long-term debt	73,148
Total expenses	<u>281,595</u>
<b>Increase (decrease) in net assets</b>	<u>\$ 294,212</u>

As reported in the Statement of Activities, the cost of all of our *governmental* activities this year was \$281,595. Certain activities were partially funded by those who benefited from service (11,849), governments and organizations that subsidized certain programs with grants and catagoricals (\$13,438). We paid for the remaining "public benefit" portion of our governmental activities with \$400,279 in taxes, \$92,829 in state penal fines, and with our other revenues, like interest and other revenues.

The Library experienced an increase in net assets of \$294,212. The key reasons for the change in net assets were the initial year of the debt service millage and the continued contributions received for the new library project. The debt service millage needed to be large enough to cover the November 1, 2004 scheduled bond payment.

As discussed above, the net cost shows the financial burden that was placed on the State and the Library taxpayers. Since property taxes for operations and penal fines constitute the vast majority of Library's operating revenue sources, the Library Board and Administration must annually evaluate the needs of the Library and balance those needs with anticipated available State unrestricted resources.

**Portland District Library**  
Management's Discussion and Analysis  
June 30, 2004

**The Library Funds**

As we noted earlier, the Library uses funds to help it control and manage money for particular purposes. Looking at funds helps you consider whether the Library is being accountable for the resources taxpayers and others provide to it but may also give you more insight into the Library overall financial health.

As the Library completed this year; our governmental funds reported a combined fund balance of \$3,383,727, which is an increase of \$2,685,414 from last year.

The general fund's fund balance shows a decrease of \$65,225. This is due to a \$200,000 transfer to the capital projects for the Library expansion project.

The capital projects funds showed an increase of approximately \$2,639,540. This is due to the issuance of a bond valued at \$2,940,000. These bonds are to be used for expansion and renovation of the existing Library building.

The debt service funds showed an increase of approximately \$111,099. Millage rates are determined annually to ensure that the Library accumulates sufficient resources to pay annual bond issue-related debt service. Debt Service Funds fund balances are reserved since they can only be used to pay debt service obligations.

**General Fund Budgetary Highlights**

The Uniform Budget Act requires that the Board approve the original budget for the upcoming year prior to July 1.

Over the course of the year, the Library's practice is to revise the budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure expenditures do not exceed appropriations.

The Library did not amend their budget during the fiscal year.

**Capital Asset and Debt Administration**

***Capital Assets***

At June 30, 2004, the Library had \$825,566 invested in a broad range of capital assets, including land, buildings, furniture and equipment.

**Portland District Library**  
Management's Discussion and Analysis  
June 30, 2004

**Capital Assets at Year-end**

	June 30	
	2004	2003
Land and Buildings	\$ 100,000	\$ 100,000
Work in process	549,184	7,196
Furniture and equipment	166,382	166,375
Total capital assets	\$ <u>815,566</u>	\$ <u>273,571</u>

Major capital projects are planned for the 2004-2005 fiscal year. The Library is in the process of building a new library. We present more detailed information about our capital assets in the Notes to the Financial Statements.

**Debt**

At the end of this year, the Library had \$2,915,000 in bonds outstanding versus \$0 last year - an increase of \$2,915,000. Those bonds consisted of:

	June 30, 2004	June 30, 2003
General obligation bonds	\$ <u>2,915,000</u>	\$ <u>0</u>

We present more detailed information about our long-term liabilities in the Notes to the Financial Statements.

**Economic Factors and Next Year's Budgets And Rates**

The library's main funding sources of operating property tax millage and state penal fines generally constitutes 90% of the revenue received by the library. This is not expected to change during the upcoming year.

The library is in the process of a \$3.6 million expansion and renovation project. This project is expected to be completed in May, 2005. The expansion will provide better accessibility and allow the Library to increase its hours of operation and offer activities currently not available at the library. Since this project will not be completed until near the end of next fiscal year, it is not expected to have a major effect on the operating budget for the fiscal year ended June 30, 2005.

**Portland District Library**  
Management's Discussion and Analysis  
June 30, 2004

**Contacting the Library Financial Management**

This financial report is designed to provide the Library's citizens, taxpayers, customers, and investors and creditors with a general overview of the Library finances and to demonstrate the Library's accountability for the money it receives. If you have questions about this report or need additional financial information, contact:

Jan Mosser  
Librarian  
Portland District Library  
334 Kent Street  
Portland, MI 48875  
(517) 647-6981

**Governmental – Wide Financial Statement**

**Portland District Library**  
Statement of Net Assets  
June 30, 2004

	Governmental <u>Activities</u>
<b>Assets</b>	
Current assets	
Cash and cash equivalents	\$ 179,045
Investments	3,243,521
Due from other governments	93,229
Total current assets	<u>3,515,795</u>
Non current assets	
Capital assets	1,153,909
Less: accumulated depreciation	(338,343)
Net capital assets	<u>815,566</u>
Total assets	<u><u>\$ 4,331,361</u></u>
<b>Liabilities</b>	
Current liabilities	
Accounts payable	\$ 129,567
Accrued payroll and other liabilities	2,501
Accrued expense	18,197
Long-term liabilities due within one year	
Bonds payable- due within one year	70,000
Total current liabilities	<u>220,265</u>
Noncurrent Liabilities	
Bonds payable-due in more than one year	<u>2,845,000</u>
Total Liabilities	3,065,265
Net Assets	
Investment in capital assts- net of related debt	(2,099,434)
Restricted - debt service	92,902
Restricted - capital projects	2,649,197
Unrestricted	623,431
Total net assets	<u><u>\$ 1,266,096</u></u>



**Portland District Library**  
Statement of Activities  
June 30, 2004

Functions/Programs	Program Revenues			Governmental Activities
	Expenses	Charges for Service	Operating Grants/ Contributions	Net (Expenses) Revenues and Changes in Net Assets
Governmental activities:				
Culture and recreation	\$ 208,447	\$ 11,849	\$ 13,438	\$ (183,160)
Interest on long- term debt	73,148	0	0	(73,148)
Total governmental activities	<u>\$ 281,595</u>	<u>\$ 11,849</u>	<u>\$ 13,438</u>	(256,308)
General revenues:				
Taxes				
Property taxes, levied for general purpose				217,161
Property taxes, levied for debt service				183,118
Penal fines not restricted to specific purposes				92,829
Interest and investment earnings				28,782
Other				<u>28,630</u>
Total general revenues				<u>550,520</u>
Changes in net assets				<u>294,212</u>
Net assets- beginning of year				<u>971,884</u>
Net assets-end of year				<u>\$ 1,266,096</u>

**Fund Financial Statements**

**Portland District Library**  
Governmental Funds  
Balance Sheet  
June 30, 2004

	General Fund	Capital Projects	Other Non-Major Funds	Total Governmental Funds
<b>Assets</b>				
Cash	\$ 13,101	\$ 54,845	\$ 111,099	\$ 179,045
Investments	382,038	2,860,483	1,000	3,243,521
Due from other governments	93,229	0	0	93,229
<b>Total assets</b>	<b>488,368</b>	<b>2,915,328</b>	<b>112,099</b>	<b>3,515,795</b>
<b>Liabilities and fund equity</b>				
<b>Liabilities</b>				
Accounts payable	7,439	122,128	0	129,567
Payroll taxes payable	2,501	0	0	2,501
<b>Total liabilities</b>	<b>9,940</b>	<b>122,128</b>	<b>0</b>	<b>132,068</b>
<b>Fund Equity</b>				
<b>Fund balances</b>				
Designated for debt retirement	0	0	111,099	111,099
Designated for capital outlay	0	2,793,200	0	2,793,200
Designated	309,990	0	0	309,990
Reserved	0	0	1,000	1,000
Undesignated	168,438	0	0	168,438
<b>Total fund equity</b>	<b>478,428</b>	<b>2,793,200</b>	<b>112,099</b>	<b>3,383,727</b>
<b>Total liabilities and fund equity</b>	<b>\$ 488,368</b>	<b>\$ 2,915,328</b>	<b>\$ 112,099</b>	<b>\$ 3,515,795</b>

**Portland District Library**  
Governmental Funds  
Reconciliation of Fund Balances of Governmental Funds to Net Assets  
June 30, 2004

**Total Fund Balances- Governmental Funds**

**\$ 3,383,727**

Amounts reported for governmental activities  
in the statement of net assets are different because:

Capital assets used in government activities are not  
financial resources, and are not reported in the funds

Capital assets cost:

\$ 1,153,909

Accumulated depreciation:

(338,343)

Net Capital Assets

815,566

Long term and other liabilities are not due and payable  
in the current period and are not reported in the funds

Bonds Payable

(2,915,000)

Accrued Interest

(18,197)

Net assets of governmental activities

**\$ 1,266,096**

**Portland District Library**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Year Ended June 30, 2004**

	General	Capital Projects	Nonmajor Governmental Funds	Totals
<b>Revenues</b>				
Property Taxes	\$ 217,161	\$ 0	\$ 183,118	\$ 400,279
Penal fines	92,829	0	0	92,829
Grants	13,438	0	0	13,438
Interest	6,224	14,565	7,993	28,782
Miscellaneous	13,516	26,963	0	40,479
<b>Total revenues</b>	<b>343,168</b>	<b>41,528</b>	<b>191,111</b>	<b>575,807</b>
<b>Expenditures</b>				
Wages	111,027	0	0	111,027
Payroll taxes	8,772	0	0	8,772
Books	23,512	0	0	23,512
Periodicals	3,349	0	0	3,349
Supplies	4,136	0	0	4,136
Programs	503	0	0	503
Repairs and maintenance	15,067	0	0	15,067
Audio Visual	7,352	0	0	7,352
Computer Expense	6,546	0	0	6,546
Co-op fees	5,425	0	0	5,425
Insurance	3,284	0	0	3,284
Memberships and dues	495	0	0	495
Utilities	7,956	0	0	7,956
Professional services	6,872	0	0	6,872
Miscellaneous	4,158	0	0	4,158
Capital outlay	0	541,988	0	541,988
Debt Service				
Redemption of bonds/notes	0	0	25,000	25,000
Interest and fiscal charges	0	0	54,951	54,951
<b>Total expenditures</b>	<b>208,454</b>	<b>541,988</b>	<b>79,951</b>	<b>830,393</b>
<b>Excess of revenues over (under) expenditures</b>	<b>134,714</b>	<b>(500,460)</b>	<b>111,160</b>	<b>(254,586)</b>
<b>Other financing sources (uses)</b>				
Bond Proceeds	0	2,940,000	0	2,940,000
Operating transfers in	61	200,000	0	200,061
Operating transfers out	(200,000)	0	(61)	(200,061)
<b>Total other financing sources (Uses)</b>	<b>(199,939)</b>	<b>3,140,000</b>	<b>(61)</b>	<b>2,940,000</b>
<b>Excess (deficiency) of revenues over expenditures and other sources (uses)</b>	<b>(65,225)</b>	<b>2,639,540</b>	<b>111,099</b>	<b>2,685,414</b>
<b>Fund balances at beginning of year</b>	<b>543,653</b>	<b>153,660</b>	<b>1,000</b>	<b>698,313</b>
<b>Fund balances at end of year</b>	<b>\$ 478,428</b>	<b>\$ 2,793,200</b>	<b>\$ 112,099</b>	<b>\$ 3,383,727</b>
<b>Excess (deficiency) of revenues</b>				

See accompanying notes to financial statements.

**Portland District Library**  
 Reconciliation of the Statement of Revenues, Expenditures, and  
 Changes in Fund Balances of Governmental Funds to Statement of Activities  
 Year Ended June 30, 2004

Net Change in Fund Balances- Total Governmental funds	\$ 2,685,414
Amount reported for governmental activities in the statement of activities are different because:	
Governmental funds reported capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation.	
Depreciation Expense	(30,857)
Capital outlay	572,852
Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid	(18,197)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	25,000
Issuance of new bond- recorded as income in governmental funds	<u>(2,940,000)</u>
Change in Net Assets of Governmental Activities	<u>\$ 294,212</u>

# **Portland District Library**

## **Notes to Financial Statements**

June 30, 2004

### **Note 1 – Summary of Significant Accounting Policies**

The accounting policies of Portland District Library conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Library:

#### **Reporting Entity**

The Library is governed by an appointed Board. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Library's reporting entity, and which organizations are legally separate, component units of the Library. Based on the application of the criteria, the district does not contain any component units.

#### **Governmental-Wide and Fund Financial Statements**

The governmental-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Library's government wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Portland District Library**  
Notes to Financial Statements  
June 30, 2004

**Note 1 – Summary of Significant Accounting Policies (Continued)**

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

**Governmental-Wide Statements** – The governmental-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

**Fund Based Statements** – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, are recorded only when payment is due.

Property taxes, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The Library reports the following major governmental funds:

The General Fund is the library primary operating fund. It accounts for all financial resources of the district, except those required to be accounted for in another fund.

Capital Projects funds are used to account for the construction of fixed assets.

The government reports the following fund types:

Debt Retirement Funds are used to account for the accumulation of resources for, and the payment of general long-term debt principal, interest, and related costs.

Capital Projects funds are used to account for the construction of fixed assets.

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes.



# **Portland District Library**

## **Notes to Financial Statements**

June 30, 2004

### **Note 1 – Summary of Significant Accounting Policies (Continued)**

#### **Assets, Liabilities, and Net Assets or Equity**

**Deposits and Investments** – Cash and cash equivalents include cash on hand, demand deposits, and short-term investments. Investments are stated at fair value.

### **Note 1 – Summary of Significant Accounting Policies (Continued)**

#### **Property Taxes**

Property taxes and other revenues that are both measurable and available for use to finance operations are recorded as revenues when earned.

Properties are assessed as a December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls.

As part of the Ionia County Library Services contract, Ionia County levies the appropriate operating millage on a countywide basis. The County Treasurer is responsible for collecting the property taxes. The Treasurer will then remit the appropriate share to each library within the County, after settlement is made with the various taxing agencies within the County.

**Capital Assets** – Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental column in the government-wide financial statements. The government defines capital assets as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Cost of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The Library does not have infrastructure type assets.

Buildings, equipments, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Furniture and other equipment	5-20 years

**Portland District Library**  
Notes to Financial Statements  
June 30, 2004

**Note 1 – Summary of Significant Accounting Policies (Continued)**

**Long-Term Obligations** – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

**Fund Equity** – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Comparative Data/Reclassifications** – Comparative data is not included in the Library's financial statements.

**Accounting Change** – Effective July 1, 2003, the Library implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34). Changes to the Library's financial statements are as a result of GASB No. 34 are as follows:

A Management's Discussion and Analysis (MD&A) section providing analysis of the Library overall financial position and results of operations has been included.

Capital assets in the governmental activities column of the statement of net assets includes assets totaling \$273,571 previously required to be reported in the General Fixed Assets Account Group. Capital assets at July 1, 2003 have been adjusted to reflect the historical cost of the Library capital assets at that date.

**Use of Estimates** – The preparation of financial statements requires estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**Note 2 – Stewardship, Compliance and Accountability**

**Budgetary Information** – Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

# Portland District Library

## Notes to Financial Statements

June 30, 2004

### Note 2 – Stewardship, Compliance and Accountability (Continued)

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Library to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. State law permits districts to amend its budgets during the year. There were no amendments during the year.

**Excess of Expenditures Over Appropriations in Budgeted Funds** – The Library did not have significant expenditure budget variances.

### Note 3 – Deposits and Investments

At year-end, the library deposits and investments were reported in the basic financial statements in the following categories:

	Governmental
	Activities
Cash and cash equivalents	<u>\$ 3,422,566</u>

The breakdown between deposits and investments for the Library is as follows:

Deposits (checking and savings accounts, certificates of deposit)	\$ 3,422,270
Petty cash and cash on hand	<u>296</u>
Total	<u>\$ 3,422,566</u>

The deposits of the Library were reflected in the accounts of the Financial Institution at \$3,436,212, of which \$454,142 is covered by federal depository insurance. The remaining balance of \$2,982,070 was uninsured and uncollateralized.

State statutes and the Library's investment policy authorize the Library to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan; the Library is allowed to invest in U.S. Treasury or Agency obligation, U.S. Government repurchases agreements, bankers' acceptances, commercial paper rated prime at the same time of purchases which mature not more than 270 days after the date of purchases, mutual funds and investment pools that are composed of authorized investment vehicles. The Library's deposits are in accordance with statutory authority.

# Portland District Library

## Notes to Financial Statements

June 30, 2004

### Note 4 – Receivables

Receivables as of year-end for the library individual major funds and the non-major and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund
Receivables:	
Intergovernmental	<u>\$ 93,229</u>

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. The library had no deferred revenue at year-end.

### Note 5 – Capital Assets

Capital asset activity of the library Governmental activities was as follows:

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Capital assets being depreciated:				
Land And Buildings	\$ 111,000	\$ 0	\$ 0	\$ 111,000
Work in process	7,196	541,988	0	549,184
Furniture and equipment	<u>462,861</u>	<u>30,864</u>	<u>0</u>	<u>493,725</u>
Subtotal	581,057	572,852	0	1,153,909
Accumulated depreciaton:				
Land And Buildings	10,000	0	0	10,000
Work in process	0	0	0	0
Furniture and equipment	<u>297,486</u>	<u>30,857</u>	<u>0</u>	<u>328,343</u>
Subtotal	<u>307,486</u>	<u>30,857</u>	<u>0</u>	<u>338,343</u>
Net capital assets	<u>\$ 273,571</u>	<u>\$ 541,995</u>	<u>\$ 0</u>	<u>\$ 815,566</u>

Depreciation expense of \$30,857 was charged to activities of the library.

**Portland District Library**  
Notes to Financial Statements  
June 30, 2004

**Note 7 – Long-Term Debt**

Bonds, loan and contract payable at June 30, 2004 are comprised of the following:

**General Obligation Bonds**

Building and site bonds of 2,940,000 November 2003  
due in annual installments of \$25,000 to \$225,000  
through May, 2023; interest at 2.50% to 4.45%. \$ 2,915,000

The following is a summary of long-term transactions for the year ended June 30, 2004:

	Bonds Payable
Long-term debt payable at July 1, 2003	\$ 0
Additions	2,940,000
Deletions	(25,000)
Long-term debt payable at July 1, 2004	<u>\$ 2,915,000</u>

The annual requirements to amortize long-term debt outstanding as of June 30, 2004, including interest payments are as follows:

	Bonds Payable
2005	\$ 179,183
2006	192,433
2007	200,308
2008	212,932
2009	220,182
2010-2014	1,145,094
2015-2019	1,176,881
2020-2023	945,404
Total	<u>\$ 4,272,417</u>

**Note 8 – Risk Management**

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) as well as medical benefits provided to employees. The Library has purchased commercial insurance for all risks. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

**Portland District Library**  
Notes to Financial Statements  
June 30, 2004

**Note 9 – Contingencies**

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Library believes such amounts, if any to be minimal.

The Library is involved in lawsuits from time to time. The ultimate outcome of any of these lawsuits cannot be presently determined; and the amount of damages, if any, cannot be determined at this time.

**Note 10 – Fund Balance Designations**

The following fund balance amounts have been designated:

General Fund - \$309,990 for subsequent year's operations.  
Capital Projects Fund - \$2,793,200 for building improvements.

**Required Supplemental Information**

**Portland District Library**  
Required Supplemental Information  
Budgetary Comparison Schedule - General Fund  
Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance Favorable (Unfavorable)
	Original	Final		
<b>Revenues</b>				
Property Taxes	\$ 217,141	\$ 217,141	\$ 217,161	\$ 20
Penal fines	99,570	99,570	92,829	(6,741)
Grants	8,400	8,400	13,438	5,038
Interest	8,000	8,000	6,224	(1,776)
Miscellaneous	15,300	15,300	13,516	(1,784)
<b>Total Revenues</b>	<b>348,411</b>	<b>348,411</b>	<b>343,168</b>	<b>(5,243)</b>
<b>Expenditures</b>				
Wages	103,363	103,363	111,027	(7,664)
Payroll taxes	7,506	7,506	8,772	(1,266)
Books	50,000	50,000	23,512	26,488
Periodicals	4,000	4,000	3,349	651
Supplies	11,000	11,000	4,136	6,864
Programs	2,000	2,000	503	1,497
Repairs and maintenance	26,500	26,500	15,067	11,433
Audio Visual	8,650	8,650	7,352	1,298
Computer Expense	14,200	14,200	6,546	7,654
Co-op fees	5,250	5,250	5,425	(175)
Insurance	4,250	4,250	3,284	966
Memberships and dues	500	500	495	5
Utilities	9,400	9,400	7,956	1,444
Professional services	7,000	7,000	6,872	128
Miscellaneous	7,250	7,250	4,158	3,092
<b>Total Expenditures</b>	<b>260,869</b>	<b>260,869</b>	<b>208,454</b>	<b>52,415</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>87,542</b>	<b>87,542</b>	<b>134,714</b>	<b>47,172</b>
<b>Other Financing Sources (Uses)</b>				
Transfers from other funds	0	0	61	61
Transfer to other funds	0	0	(200,000)	(200,000)
<b>Total Other Financing Sources (Uses)</b>	<b>0</b>	<b>0</b>	<b>(199,939)</b>	<b>(199,939)</b>
<b>Excess (deficiency) of revenues over expenditures and other sources (uses)</b>	<b>87,542</b>	<b>87,542</b>	<b>(65,225)</b>	<b>(152,767)</b>
<b>Fund Balance, beginning of year</b>	<b>543,653</b>	<b>543,653</b>	<b>543,653</b>	<b>0</b>
<b>Fund balance, end of year</b>	<b>631,195</b>	<b>631,195</b>	<b>478,428</b>	<b>(152,767)</b>

See accompanying notes to financial statements.



**Portland District Library**  
Combining Balance Sheet - Nonmajor Governmental Funds  
June 30, 2004

	Governmental Fund Types		Totals (Memorandum Only)
	Debt Funds	Special Revenue	
<b>Assets</b>			
Cash in bank	\$ 111,099	\$ 0	\$ 111,099
Investments	0	1,000	1,000
<b>Total Assets</b>	<u>\$ 111,099</u>	<u>\$ 1,000</u>	<u>\$ 112,099</u>
<b>Liabilities and Fund Equity</b>			
<b>Liabilities</b>			
Accounts Payable	\$ 0	\$ 0	\$ 0
Payroll Taxes Payable	0	0	0
Retirement Payable	0	0	0
<b>Total Liabilities</b>	0	0	0
<b>Fund Equity</b>			
Fund balances			
Reserved	0	1,000	1,000
Undesignated	111,099	0	111,099
<b>Total fund equity</b>	<u>111,099</u>	<u>1,000</u>	<u>112,099</u>
<b>Total liabilities and fund equity</b>	<u>\$ 111,099</u>	<u>\$ 1,000</u>	<u>\$ 112,099</u>

See accompanying notes to financial statements.

**Portland District Library**  
Combining Statement of Revenues, Expenditures and Changes in  
Fund Balances - Nonmajor Governmental Funds  
Year Ended June 30, 2004

	Debt Fund	Special Revenue Fund	Combined Totals (Memorandum Only)
Revenues			
Property Taxes	\$ 183,118	\$ 0	\$ 183,118
Interest	7,932	61	7,993
Total Revenues	<u>191,050</u>	<u>61</u>	<u>191,111</u>
Expenditures			
Debt Service			
Redemption of bonds/notes	25,000	0	25,000
Interest and other charges	54,951	0	54,951
Total Expenditures	<u>79,951</u>	<u>0</u>	<u>79,951</u>
Excess of Revenue Over (Under) Expenditures	<u>111,099</u>	<u>61</u>	<u>111,160</u>
Other Financing Sources (Uses)			
Transfers from other funds	0	0	0
Transfer to other funds	0	(61)	(61)
Other Sources (Uses)	<u>0</u>	<u>(61)</u>	<u>(61)</u>
Excess (deficiency) of revenues over expenses	<u>111,099</u>	<u>0</u>	<u>111,099</u>
Fund Balance, beginning of year	<u>0</u>	<u>1,000</u>	<u>1,000</u>
Fund Balance, end of year	<u><u>\$ 111,099</u></u>	<u><u>\$ 1,000</u></u>	<u><u>\$ 112,099</u></u>

See accompanying notes to financial statements.

**Portland District Library**  
Other Supplemental Information  
Schedule of Bonded Debt  
2003 Bonds  
June 30, 2004

Year Ended June 30	Interest Rate	Principal May 1	Interest		Total Debt Requirement
			November 1	May 1	
2005	2.500%	\$ 70,000	\$ 54,591	\$ 54,592	\$ 179,183
2006	2.500%	85,000	53,716	53,717	192,433
2007	2.500%	95,000	52,654	52,654	200,308
2008	2.500%	110,000	51,466	51,466	212,932
2009	2.750%	120,000	50,091	50,091	220,182
2010	3.050%	130,000	48,441	48,441	226,882
2011	3.300%	135,000	46,459	46,459	227,918
2012	3.500%	140,000	44,231	44,231	228,462
2013	3.650%	145,000	41,781	41,781	228,562
2014	3.700%	155,000	39,135	39,135	233,270
2015	3.800%	160,000	36,268	36,268	232,536
2016	3.900%	170,000	33,227	33,227	236,454
2017	4.000%	175,000	29,913	29,913	234,826
2018	4.100%	185,000	26,412	26,413	237,825
2019	4.200%	190,000	22,620	22,620	235,240
2020	4.300%	200,000	18,630	18,630	237,260
2021	4.375%	210,000	14,330	14,330	238,660
2022	4.400%	215,000	9,736	9,736	234,472
2023	4.450%	225,000	5,006	5,006	235,012
Total		<u>\$ 2,915,000</u>	<u>\$ 678,707</u>	<u>\$ 678,710</u>	<u>\$ 4,272,417</u>

Purpose - To erect, furnish and equip a new library building.

November 22, 2004

To the Library Board  
Portland District Library  
Portland, Michigan

We have recently completed our audit of the general purpose financial statements of the Portland District Library for the year ended June 30, 2004. As required by generally accepted auditing standards, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

**AUDITOR'S RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS**

We conducted our audit of the general purpose financial statements of the Portland District Library in accordance with generally accepted auditing standards. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for the devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the general purpose financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the general purpose financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the general purpose financial statements is confined to the expression of an opinion on them. The general purpose financial statements remain the representations of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those that have, on a relative basis, more importance to the general purpose financial statements and greater possibilities of material error than with those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective of an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an auditor provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or irregularities. The existence of that risk is implicit in the phrase in the audit report, "in our opinion".

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

### **SIGNIFICANT ACCOUNTING POLICIES**

Auditing standards call for us to inform you regarding the initial selection of, and changes in, significant accounting policies or their application. In addition, we are expected to inform you about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

The significant accounting policies are described in Note 1 to the financial statements.

### **GASB STATEMENT #34 IMPLEMENTATION**

GASB #34 has been successfully implemented by the Library. The financial statements presented for the year ended June 30, 2004 comply with these requirements.

Our procedures, which were made for the limited purpose described previously, would not necessarily disclose all material weaknesses in the system of internal control. Accordingly, we do not express an opinion on the system of internal control structure of the Library taken as a whole. However, we would like to make the following comments and recommendations.

We would like to express our appreciation for the cooperation extended to us by the Library officials during the course of the audit. It is a pleasure providing professional services to the Portland District Library.

Very truly yours,



BIGGS, HAUSSERMAN, THOMPSON & DICKINSON, P.C.  
Certified Public Accountants

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